



# City of Chattanooga

Stan Sewell  
Director

INTERNAL AUDIT  
City Hall  
Chattanooga, Tennessee 37402

Ron Littlefield  
Mayor

February 17, 2006

Honorable Ron Littlefield  
Mayor, City of Chattanooga  
City Hall  
Chattanooga, TN 37402

RE: Overtime, Audit 05-03

Dear Mayor Littlefield:

Attached is the Internal Audit report on citywide overtime practices. You may note a delay in the issuance of our report. As you are aware, high priority issues in specific department areas have recently required our immediate attention. We strive to provide information to you and management in a timely manner.

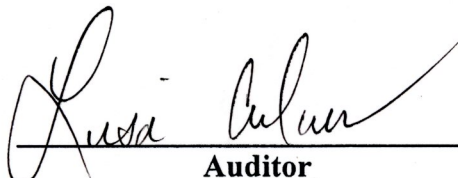
Very truly yours,

Stanley L. Sewell  
Director of Internal Audit

cc: Dan Johnson, Chief of Staff  
Rob Healy, Parks & Recreation Administrator  
Daisy Madison, Finance Officer  
Steve Leach, Public Works Administrator  
Beverly Johnson, Neighborhood Services Administrator  
Donna Kelley, Personnel Director  
Steve Parks, Chief of Police

**CITYWIDE OVERTIME PRACTICES**  
**AUDIT 05-03**  
**NOVEMBER 29, 2005**

**CITYWIDE OVERTIME PRACTICES  
AUDIT 05-03**

  
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**Auditor**

  
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**Director**

# **CITYWIDE OVERTIME PRACTICES AUDIT 05-03**

## **INTRODUCTION**

The Federal Fair Labor Standards Act (FLSA), first enacted in 1938, establishes minimum wage, overtime pay, record keeping, and child labor standards affecting full-time and part-time workers in the private sector and in federal, state and local governments. The act stipulates that all non-exempt workers in the United States be paid overtime when they work more than 40 hours in a week. It also defines which conditions must be met to be exempted from the terms of the law. The City of Chattanooga Overtime Policy is in accordance with the FLSA. However, the City Code is more generous in many instances in paying overtime to employees.

A section of the FLSA provides for a partial exemption from overtime pay requirements for fire fighters and sworn personnel, who work shift schedules that cause them to work a flexible schedule frequently totaling more than 40 hours in a week. The Fire and Police Departments' sworn personnel were not included in this audit.

This report presents the results of our audit of citywide overtime usage. For the City departments examined, controls over the use of overtime are incomplete and inconsistently enforced.

## **STATEMENT OF OBJECTIVES**

The objective of this audit was to determine if:

1. Selected departments are applying overtime policies accurately and paying employees according to the City Code.

## **STATEMENT OF SCOPE**

The audit period covered citywide department records and policies on overtime practices and charges from July 2004 through March 2005. Source documentation was obtained from the departmental payroll clerks and Personnel Department. Original records, as well as copies were used as evidence and verified through physical examination. Internal Audit relied on Section 2-155, Overtime and Compensatory Leave, from the City Code. Internal Audit selected the Codes Division of Neighborhood Services, the Civic Facilities Division of Parks, Recreation, Arts, and Culture, the Communication Division (civilian) of the Police Department, the Fleet Maintenance Division of the Finance Department, and multiple Divisions of Public Works for review of overtime records from July 2004 through March 2005.



## **STATEMENT OF METHODOLOGY**

To accomplish our objective, Internal Audit reviewed records for employees with the highest amounts paid in overtime from July 2004 through March 2005. In addition, limited data testing was performed. Auditors reviewed the City's policies and procedures that govern overtime use. Auditors conducted tests on various documents to determine their adherence to the City's procedures. Overtime authorization forms and time sheets were reviewed to determine if they were properly completed, approved and agreed to payroll. These tests were intended to determine whether the controls in place to prevent abuse are functioning correctly. Internal Audit also interviewed staff members to understand how each department manages overtime. As part of our audit, internal controls were evaluated over the processing of personnel documents and compliance with applicable personnel rules and regulations. Our verification included the following steps:

1. We obtained applicable time and overtime worksheets and reports for each employee selected for audit.
2. We reviewed the documents to determine whether the employee was receiving regular overtime (ROT) or double overtime (DOT) and any inaccuracies during the pay period.
3. We traced time sheets and overtime sheets to the Human Resource Payroll system (HRPR).

Weaknesses were found in several areas that are discussed in the Findings and Recommendations section of this report. Our recommendations, when implemented, should improve controls in these areas.

## **STATEMENT OF AUDITING STANDARDS**

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

## **AUDIT CONCLUSIONS**

Based upon the testwork performed and the audit findings noted below, we conclude that:

1. Selected departments are not applying overtime policies accurately and are not paying employees according to City Code.

## **DEPARTMENTAL OVERTIME POLICIES**

Calculations of overtime pay have been inconsistent with requirements of the Fair Labor Standards Act (FLSA) and City Code. Calculation methods used in some departments have resulted in underpayments of overtime to some employees and excessive payments to others. Overpayment of employee overtime was discovered in ten of 11 divisions (91%) that were tested by Internal Audit. However, underpayment of employee overtime was also discovered in six of 11 divisions (55%) tested.

Internal Audit noted that DOT is only authorized according to the City Code, if work is performed seven consecutive days in a work week.

Further, FLSA requires that all payroll and actual work records are retained for three years after the date the record is created.

Based upon testwork performed in comparing the payroll clerk's source documents to the payroll system several inconsistencies were found. The discrepancies found per department are listed below:

### **Public Works**

- In many cases, DOT was paid even though the employees did not work seven consecutive days.
- Often, the payroll system did not agree with the overtime authorization form. Auditors noted both over and under payments.
- In multiple instances, there was no authorization form on file to support the overtime payments.

### **Parks and Recreation**

- The Civic Facilities Division does not use overtime authorization forms. Overtime amounts are submitted on a spreadsheet based on time clock entries. There is no signature of approval on neither the spreadsheet nor the time clock entries.
- In some instances, DOT was paid even though the employees did not work seven consecutive days.
- In some instances, the payroll system did not agree with the documents submitted. Auditors noted both under and over payments.
- In all cases, there was no signed documentation to support the authorization of overtime payments.

### **Finance**

- On several occasions, the payroll system did not agree with the overtime authorization form or time sheet. Auditors noted both over and under payments.



**Police (civilian)**

- In a few cases, the payroll system did not agree with the overtime authorization form or time sheet. Auditors noted that all instances resulted in under payments.
- Auditors found that DOT was not paid in several instances even though work was performed for seven consecutive days.

**Neighborhood Services**

- In a few instances, there was no authorization form on file to support overtime payment.
- An employee was paid a total of 16 hours of overtime when only 4 actual hours were worked. Four separate overtime authorization forms were completed and submitted for the same date (12/16/2004). All four forms were authorized (signed) by the immediate supervisor and the Deputy Administrator.

Various departments throughout the City have been demonstrating different overtime policies and procedures. During interviews with the various divisions' supervisors, it was noted that City Wide Services and Interceptor Sewer start calculating overtime on emergency calls when the employee clocks in at the facility. However, Fleet Maintenance employees are paid overtime on emergency calls from a home to home basis. Most of the divisions give employees either 2 or 4 hours of overtime for each emergency call. The Emergency and Brush Collection divisions only pay their employees for the actual time worked. In Fleet Maintenance, an employee is given four hours of regular pay on Saturday (in addition to actual overtime pay) when assigned on-call status.

**RECOMMENDATION 1**

All departments should follow the City's Code for Overtime and Compensatory Leave, Section 2-155, which states, "A non-exempt employee normally scheduled to work five (5) eight (8) hour days a week shall be compensated for work on a sixth consecutive day worked during a workweek at the rate of one and one-half (1.5) times the regular rate at which he/she is paid and at the rate of two (2) times the regular rate at which he/she is paid for work on a seventh consecutive day worked during a workweek."

**RECOMMENDATION 2**

If the monitoring procedure established by the Finance Department allows for records retention by department, the payroll clerks should be provided with the FLSA retention requirements and they should be held accountable for following the policies.

**RECOMMENDATION 3**

The Personnel Department should work with all City Departments to establish specific policies on overtime payments relating to emergency calls and on-call employees. This should be a uniform policy documented and distributed to all employees affected.

### **AUDITEE RESPONSE (Public Works):**

Your findings are no surprise. The Public Works Department does not dispute your findings concerning overtime calculations/pay/documentation within Public Works; however we will offer a few observations/comments.

PW may have differed in calculating DOT for some employees. The overtime ordinance as written is easily misunderstood by many of the rank and file members of the workforce. One division manager, with the knowledge of the personnel department and the PW Department Administrator, did calculate overtime differently than outlined in the City Code. This may have resulted in some employees being paid DOT in error. However, PW did not violate the FLSA and, in fact, exceeded the FLSA requirement. This policy was changed approximately a year ago. Despite these issues, PW's overtime charges have decreased significantly over the past two years.

Problems may still exist in the way overtime is calculated in the Traffic Operations section. This has been the topic of many, many meetings between PW, Personnel and the City attorney's office and we thought this had been resolved pending a City Wide Policy on overtime. Now we aren't so sure. The resolution in this instance is up to personnel and the city attorney's office to work out a city wide policy.

To resolve many of the problems inherent in how the city computes overtime for general fund employees, we recommend the city follow the fair Labor Standard Act and simply pay time and one-half for all hours worked over forty (40) hours in one work week. DOT, as outlined in the current ordinance is confusing to employees, quite a few managers, and is not required by the FLSA.

In addition to following the FSLA, and as stated numerous times previously, the city needs to pay in arrears rather than in advance. Paying in advance leads to errors in overtime calculations, is not compatible with any time clock software on the market, and is time/labor intensive in submitting/correcting payroll. In fact, this should have been corrected before considering moving to direct deposit.

The implementation of new financial management software for the city should/could eliminate many of the problems reported, but will require explanation/training for city employees.

### **AUDITEE RESPONSE (Parks and Recreation):**

We concur with your recommendations. However, the time period under audit was during the prior administration. Further, the Civic Facilities are now under the direction of the Education, Arts and Culture Department. Because this report appears to indicate problems are citywide, we will take steps to ensure our other divisions are in compliance with City Code and FLSA.



### **AUDITEE RESPONSE (Finance):**

The City Finance Office concurs with recommendations 1 through 3. We also would like to point out the necessity to include compliance with City Code Section 2-161 (a)(3) in conjunction with City Code Section 2-155, which effectively allows pay at the rate of two and one-half (2.5) times under certain circumstances. The section states "Unless otherwise provided, an employee who works on a regularly scheduled holiday shall be granted extra pay at a rate equivalent to his or her overtime pay rate, as provided in Section 2-155 of this Code. An employee granted such extra pay for work on a holiday shall not be charged for the use of one day of personal leave unless, as directed by the departmental administrator, one day of personal leave shall also be deducted and paid at the employee's regular rate of pay. Such extra pay shall not be used to calculate an employee's regular rate and shall be creditable toward any overtime compensation payable to an employee. Days off for all sworn personnel of the Departments of Fire and Police shall be governed by Section 2-161(b) of this Chapter."

In regards to Recommendations 1 and 2, the City Finance Office will work with the Information Services Division to redesign our Payroll system to ensure that payroll issues, including overtime pay (ROT and DOT) and call-back pay, are computed in accordance with City Code and the FLSA and are consistently applied throughout the City.

To further ensure compliance with Recommendation 1, the City Finance Office will develop, in conjunction with the Personnel Department, a training program to be conducted for all employees who approve overtime or affect overtime pay of employees through the entry of time records in the payroll system. Such training will include a recap of all applicable FLSA and City Code rules governing overtime and compensatory time. City Code Section 2-155 clearly lays out rules allowing overtime for employees who work eight (8) and ten (10) hour shifts which allow overtime pay on a daily basis if hours are worked in excess of the employee's established work period. We point out that there are also employees who have an established twelve (12) hour workday whose schedules are not specifically addressed in Section 2-155 and whose overtime will be based on FLSA in the event the City Code is not modified to treat this class of employees in a similar "daily" manner for payment of overtime. Additionally, FLSA requires time records to be kept for all non-exempt employees which document hours worked on a daily basis. Forms to keep these records will be provided and will include appropriate signatures. Forms will also be provided to document an employee election to request compensatory time in lieu of overtime pay, which election shall be revocable by the employee.

To further ensure compliance with Recommendation 2, the training sessions will include a discussion of appropriate forms, approvals, timekeeping, and record retention requirements. Applicable sections of the City Code and the MTAS Municipal Records Retention Manual will be provided to all employees responsible for payroll preparation and authorization.



#### **AUDITEE RESPONSE (Police):**

We concur with the findings.

#### **AUDITEE RESPONSE (Neighborhood Services):**

A policy is now in place requiring all employees who are eligible for overtime or compensatory time to obtain prior written approval from their Immediate Supervisor and the Department Administrator. The department has developed and distributed an "Authorization for Overtime and Compensatory Time" form to be used by persons requesting overtime or compensatory time.

Requiring prior approval to earn overtime or compensatory time will prevent this error from occurring in the future. Employees are currently required to provide written reports for the actual activities associated with earned overtime or compensatory time. This report, together with the authorization to work overtime and the authorization to pay will be the basis for which payment is processed.

#### **AUDITEE RESPONSE (Personnel):**

I sincerely appreciate the information harnessed in this audit, and I agree with the conclusion as well as the recommendations. Certainly the City and its agents should take note of the irregularities and begin compliance immediately. To that end, we are willing to retrain any clerical staff on the attendance functions of the HR system. We are also in the process of drafting a policy for the chiefs to review that would uniformly apply the City's reporting and call-in practices.

#### **MONITORING OVERTIME**

Time and attendance of employees should be properly monitored and documented to prevent the waste and abuse of government time and resources. City Code Section 2-155 (d) states, "The office of the City Finance Officer shall monitor overtime records...." There is no individual department reviewing employee payroll records to ensure compliance with the City's overtime policy. A key responsibility of upper management is to increase accountability and productivity by closely supervising and monitoring staff performance. Inefficient and unnecessary use of overtime diminishes City funds.

#### **RECOMMENDATION 4**

The City's Financial Officer should establish monitoring procedures to ensure departments are accurately reporting overtime. An example would be a report that would track if an employee is paid double-time (DOT) before ever receiving regular overtime (ROT) within a pay period. Another example would be to have the Finance Office review all source documents processed by the departmental payroll clerks on a regular basis.

The Finance Officer should also consider requiring payroll clerks to enter work record detail information into the City's HRPR system.

**AUDITEE RESPONSE (Finance):**

As stated above, the Finance Office will work with the Information Services Division to redesign our payroll system to consistently compute overtime based upon an employee's actual hours and days worked and the guidelines established by the City Code and the FSLA. Monitoring procedures will be established. This will include a requirement that specific dates for overtime worked will be entered in the system which match manual or time clock records and will allow for monitoring of ROT and DOT as outlined within City Code Section 2-155. Departments will now also be required to enter compensatory time earned into the leave system which will allow proper tracking of leave earned and taken.

Payrolls are currently processed as far as one week in advance of the pay period ending date. This process lends itself to greater potential for errors. To facilitate greater compliance with City Code and FLSA pay requirements, the City Finance Division will revise payroll procedures to implement a pay behind system as soon as practical. This will provide for more accuracy in payroll processing by eliminating the guesswork in payroll preparation with respect to regular and overtime hours worked as well as leave and compensatory time taken. This will also enable us to better utilize the controls and other features available in the payroll system which are designed to ensure compliance with FLSA regulations.

**OVERTIME NOT PROPERLY AUTHORIZED**

Out of the eleven divisions tested, seven often lacked properly authorized/approved overtime forms. Internal Audit did not find any discrepancies with the overtime authorization forms for the Finance and Police (civilian) Departments. Auditors reviewed authorization forms to determine whether overtime use was being properly signed and documented. The supervisor's signature was often missing from the overtime forms for Public Works, Neighborhood Services, and Parks and Recreation Departments. The payroll clerk who entered the overtime into the system should not have entered it without proper authorization. Several overtime authorizations we reviewed for the Chief Operator of ISS Liquid Handling Division were signed by the employee earning the overtime as both the authorizing and approving official. Section 2-155 (e), Overtime and Compensatory Leave states, "Employees eligible for overtime pay or compensatory leave shall only work beyond the maximum allowable hours when it is authorized by a department head or authorized supervisor."



## **RECOMMENDATION 5**

The departments should require that all non-emergency overtime be authorized prior to being worked. In addition, all overtime sheets should be signed and dated by an employee's supervisor as evidence of their review and approval. Departments should ensure that overtime will be properly approved and have all required signatures to comply with City Code.

### **AUDITEE RESPONSE (Public Works):**

We will retrain our managers on their responsibility in documenting/approving overtime.

### **AUDITEE RESPONSE (Neighborhood Services):**

Neighborhood Services will adhere to Recommendation 4 and Recommendation 5.

### **AUDITEE RESPONSE (Parks and Recreation):**

We concur with your recommendations. However, the time period under audit was during the prior administration. Further, the Civic Facilities are now under the direction of the Education, Arts and Culture Department. Because this report appears to indicate problems are citywide, we will take steps to ensure our other divisions are in compliance with City Code and FLSA.

## **PAYROLL CLERK TRAINING**

The departmental payroll clerks are the point of entry for all pay records of employees entered into the payroll system. They have the responsibility of entering all time sheets, personal leave slips, and overtime forms. They also have the responsibility of understanding the policies of how overtime is calculated for employees. The Payroll Division trains departmental payroll clerks on how to enter the data into the system and provides them with written instructions for this process. However, they do not provide training or instruct the payroll clerks how to calculate overtime. The Payroll Division indicated they did not have information on how overtime was calculated because every department handles overtime calculations differently.

## **RECOMMENDATION 6**

The Finance Department should establish uniform procedures and policies for calculating overtime payments to employees. Training on these procedures should be administered to all personnel dealing with payroll. In particular, departmental payroll clerks should be thoroughly trained about City Code provisions related to overtime.

**AUDITEE RESPONSE (Finance):**

We concur. Training will include all personnel dealing with payroll, including those who approve overtime and comp time.

**STANDARDIZED OVERTIME AUTHORIZATION FORMS**

There are no standardized city-wide overtime authorization forms. Several divisions used regular time sheets and/or time clock printouts to indicate overtime and others used a standardized overtime-usage authorization form.

**RECOMMENDATION 7**

All departments within the City should use the same standardized overtime authorization form. This form should be developed, maintained, and distributed by the Finance Department.

**AUDITEE RESPONSE (Finance):**

Overtime forms will be developed for use by all departments. Currently, the Fire and Police Departments are using a form deemed adequate for their use. Additional forms will be developed for use in other departments which will clearly document overtime authorization and time worked.

**PERSONAL LEAVE**

During the review, it was noted that employees are taking personal leave and earning overtime during the same work week. The City Code does not specifically detail how to consider personal leave taken during a work week when calculating overtime pay. However, the code does state that the employee must work 40 hours before earning any overtime pay.

**RECOMMENDATION 8**

The Finance Department should establish a detailed policy on how to calculate overtime pay when an employee has taken personal leave during the work week.

**AUDITEE RESPONSE (Finance):**

The City Finance Department will ensure that City policy will be followed in calculating overtime pay when an employee takes leave during a pay period. City policy as outlined in City Code Section 2-155 allows overtime on a daily basis for many employees, making it possible to correctly pay overtime in situations where less than 40 hours are worked in a scheduled workweek. However, personal leave days will be taken into account going forward in determining when an employee has **WORKED** enough consecutive days to receive overtime pay under provisions of 2-155 and FLSA.